



June 1, 2007

Mr. Charles Terreni
Chief Clerk and Administrator
Public Service Commission of South Carolina
P. O. Drawer 11649
Columbia, South Carolina 29211

Re: Docket No. 2007-1-E

Dear Mr. Terreni:

Enclosed for filing are:

- (1) A Joint Motion for the Scheduling of a Settlement Hearing;
- (2) A Settlement Agreement entered into by all parties; and
- (3) The Supplemental Direct Testimony of Progress Energy Carolinas, Inc.'s Witness Bruce P. Barkley, sponsored by Progress Energy Carolinas, Inc., Nucor Steel-Carolinas, and the Office of Regulatory Staff.

Very truly yours,

/s/

Len S. Anthony

LSA:mhm

250899

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-1-E

June 1, 2007

IN RE:)	
)	
Carolina Power & Light Company, d/b/a)	JOINT MOTION FOR THE
Progress Energy Carolinas, Inc. Annual)	SCHEDULING OF A SETTLEMENT
Review of Base Rates for Fuel Costs)	HEARING TO APPROVE
)	SETTLEMENT AGREEMENT

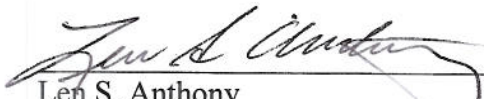
Pursuant to the Public Service Commission of South Carolina's ("the Commission") Settlement Policies and Procedures, Progress Energy Carolinas, Inc. ("PEC"), Nucor Steel-South Carolina ("Nucor") and the South Carolina Office of Regulatory Staff ("ORS") move the Commission to schedule a Settlement Hearing to consider and approve a comprehensive Settlement Agreement entered into by and between PEC, Nucor Steel and the ORS being filed this same date. The Settlement Agreement is attached to this Motion. PEC Witness Bruce P. Barkley will be presented at such Settlement Hearing to support the settlement. The parties propose that the originally scheduled hearing date, June 13, 2007, be used as the date for the Settlement Hearing.

The Settlement Agreement resolves all issues involved in this proceeding and establishes the methodology for determining the environmental component of PEC's overall fuel factor as required by recently amended S.C. Code Ann. §58-27-865(A)(1) (Senate Bill 431, effective May 3, 2007). The settlement also establishes PEC's fuel rider and the non-environmental component of PEC's overall fuel factor. The total cost to be recovered via these two components equals the cost originally proposed by PEC in its May 2, 2007 filing in this docket, adjusted to reflect the

recommendations of ORS Witness Jackie Cherry in her pre-filed direct testimony being filed this same date.

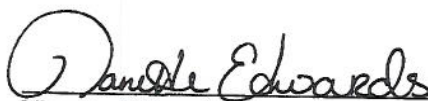
WHEREFORE, PEC, the ORS and Nucor Steel move the Commission to schedule a settlement hearing and approve the attached Settlement Agreement.

PROGRESS ENERGY CAROLINAS, INC.



Len S. Anthony
Deputy General Counsel – Regulatory Affairs
P. O. Box 1551, PEB 17A4
Raleigh, NC 27602

S.C. OFFICE OF REGULATORY STAFF

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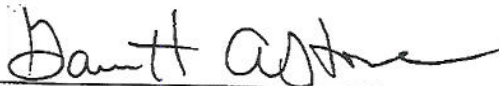
Nanette Edwards

Counsel

Post Office Box 11263

Columbia, South Carolina

NUCOR STEEL-SOUTH CAROLINA

A handwritten signature in dark ink, appearing to read "Garrett A. Stone", written over a horizontal line.

Garrett A. Stone, Esq.
Brickfield, Burchette, Ritts & Stone, PC
1025 Thomas Jefferson Street, NW
Eighth Floor, West Tower
Washington, DC 20007

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-1-E

June 1, 2007

IN RE:)	
)	
Carolina Power & Light Company, d/b/a)	SETTLEMENT AGREEMENT
Progress Energy Carolinas, Inc. Annual)	
Review of Base Rates for Fuel Costs)	
<hr/>)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”), Nucor Steel – South Carolina (“Nucor”) and Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc., (“PEC”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2006), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the testimony of the following witnesses without objection, change, amendment or cross-examination:

A. PEC witnesses:

(1) Bruce P. Barkley (Direct & Supplemental)

(2) Dewey S. Roberts, II (Direct)

B. ORS witnesses:

(1) Jacqueline R. Cherry (Direct)

C. Nucor witness (if any)

The Parties further agree to work collaboratively to submit testimony in support of this Settlement Agreement as set forth by the Commission's settlement procedures.

2. ORS's review of PEC's operation of its generating facilities resulted in the conclusion that PEC has made reasonable efforts to maximize unit availability and minimize fuel costs. Additionally, ORS has determined that PEC took appropriate corrective action with respect to any outages that occurred during the review period.

3. As a compromise to positions advanced by PEC, ORS, and Nucor, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties. The Parties agree that:

A. The fuel factor, exclusive of the environmental component, shall be set by adjusting the PEC proposed 2.675 cents/kWh fuel factor to reflect removal of \$20 million of total system forecasted SO₂ emission allowance costs plus the ORS adjustments set forth in ORS Witness Cherry's pre-filed testimony and shall be effective for the period beginning with the first billing cycle in July 2007 extending through the last billing cycle in June 2008. Such revised fuel factor is 2.651 cents per kwh.

B. The methodology for determining the “variable environmental cost” component charge, which shall be the charge used to recover the forecasted SO₂ emission allowance costs in this case (referred to in Paragraph 3(A) above), under S.C. Code Ann. §58-27-865(A)(1), as amended by Senate Bill 431, enacted in May 2007, shall be established in this proceeding as set forth in Paragraph 3(C) and this methodology shall also be utilized to recover all “variable environmental costs” in all future PEC fuel proceedings. Notwithstanding the above, in the event that any party proposes to change the methodology in the future, PEC and Nucor agree to support and defend the methodology established in this agreement. The methodology agreed to by the parties is consistent with the statutory requirements of S.C. Code Ann. §58-27-865(A)(1), as amended, and is just, reasonable and in the public interest.

C. The only “variable environmental costs,” subject to the amended fuel statute, proposed by PEC to be recovered in this proceeding, are the projected SO₂ allowance costs for the period July 2007 through June 2008 referred to in Paragraph 3(A) above. In order to comply with the new statute, the parties agree that an environmental component must be established for PEC’s South Carolina customer classes in this proceeding to recover the South Carolina allocated portion of the estimated \$20 million in PEC’s system SO₂ allowance costs for the forecast period for this case. As explained in Paragraph 3(A) above, these costs have been removed from the traditional fuel factor for recovery through the environmental component as defined in S.C. Code Ann. §58-27-865 (A)(1). PEC will provide to the parties in advance of filing in subsequent fuel cases, for review and input, the workpapers (a spreadsheet) showing its calculations of the rate class allocations and environmental component charges to ensure that they comport with

the settlement, along with any proposed revisions to the rate schedules to reflect the settlement. The methodology for setting the environmental component has been established by the parties looking specifically at PEC and its billing capabilities and should not set precedent for other utilities in South Carolina. The environmental component shall be developed through the following steps:

- (1) The South Carolina portion of PEC's variable environmental costs (in this case, the South Carolina portion of the projected \$20 million in PEC system SO₂ allowance costs) shall be allocated among the following customer classes: residential; GS (non-demand); GS (demand); and Lighting, based on the firm demand contribution of each such class to PEC's coincident South Carolina firm peak demand for the prior year (in this case, 2006). Curtailable and/or interruptible loads are not firm loads and shall be excluded from the class demands and jurisdictional demand for allocation purposes.
- (2) For the GS (demand) class which uses billing demands, the environmental component shall be designed to recover the costs allocated to it by establishing a charge per kilowatt. For those GS (demand) customers that subscribe to curtailable rate schedules the charge per kilowatt shall be applicable only to their Firm Billing Demand (kW). (For purposes of billing, all demand shall be billed the environmental cost component, but curtailable demand shall be credited an equivalent charge to reflect the fact the component is only applicable to Firm Demand.) Specifically, the environmental cost allocated to the GS (demand) class shall be divided by the projected Billing Demands (on-peak only for time-of-use schedules) to calculate the specific environmental component demand

charge. In determining the projected Billing Demands for the recovery period for those customers that subscribe to curtailable rate schedules, only their Firm Billing Demand shall be included. For Schedule LGS-RTP, the schedule shall be revised to include a new Environmental Recovery Charge that will bill the environmental rate times the difference between the maximum actual demand and the monthly customer baseline load billing demand (on-peak if used in conjunction with Schedule LGS-TOU). For the GS (non-demand), Residential and Lighting classes the environmental component shall be designed to recover the costs allocated to such classes by establishing a charge based on projected kWhs of usage. The environmental component for each class for the recovery period is attached as Exhibit A to this Agreement.

- (3) Any under- or over-recovery of the environmental component shall be accumulated and included in the environmental cost for recovery in the next fuel proceeding.

D. Pursuant to the settlement agreement approved by the Commission in Docket No. 2006-1-E, increased revenue generated by the fuel factor shall be used to first reduce the actual PEC under-recovery in the manner described in the Commission approved settlement agreement.

E. During its review of PEC's fuel costs, ORS identified a settlement of a lawsuit involving PEC and a coal supplier executed in January 2007. ORS did not have sufficient time to review the documentation regarding this settlement and determine whether any adjustments should be made. All parties agree that the determination of

what, if any, adjustments or true-ups are necessary concerning this matter is an issue that will be addressed in the next fuel proceeding.

F. PEC will continue to meet the requirements of the settlement agreements in Docket Nos. 2005-1-E and 2006-1-E, including, but not limited to, the requirement to inform the Parties and PEC's customers on a quarterly basis as to the expected fuel factor to be set in its next annual proceeding.

4. Except as expressly set forth herein, this Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. §58-27-865 in any future proceeding.

5. The Parties agree to accept all accounting adjustments as put forth in ORS Witness Cherry's testimony.

6. Except as identified in Paragraph 3(E), the Parties agree that any and all challenges to PEC's historical fuel costs and revenues for the period ending March 31, 2007 are not subject to further review; however, fuel costs and revenues for periods beginning April 1, 2007 and thereafter shall be open issues in future proceedings and will continue to be trued-up against actual costs in such proceedings held under S.C. Code Ann. § 58-27-865.

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues and motions currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. This written Settlement Agreement contains the complete agreement of the Parties. Except as set forth in paragraphs 3(B) and (C), the Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty, by providing written notice of intent to do so within five (5) working days of notice of the Commission's decision not to approve the Settlement Agreement in its entirety. In the event any Party withdraws under such circumstances, then the Settlement Agreement is null and void and each Party shall have the opportunity to present evidence and advocate its position in the proceeding and the Parties shall work together in good faith to develop and propose a new procedural schedule to put the Parties back in the position they were prior to the settlement.

9. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

10. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capabilities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

11. This Settlement Agreement is and shall be deemed for all purposes to have been prepared for the benefit of and through the joint efforts of the Parties hereto and shall not be construed or interpreted against the Party originating or preparing it.

12. Each Party represents and warrants that its representative(s) executing this Settlement Agreement is fully authorized to do so on its behalf. Each Party acknowledges its

consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party.

13. Each numbered or lettered subsection or paragraph herein is for reference only and has no substantive meaning.

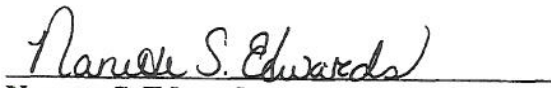
14. This Settlement Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one original and provable copy of this Settlement Agreement.

15. This Settlement Agreement fully represents the entire agreement of the Parties with respect to the matters addressed herein and supersedes all prior conversations, documents, and agreements (express or implied) in this Docket No. 2007-1-E. No terms or conditions of this Settlement Agreement may be modified or waived except by an instrument in writing duly signed by or on behalf of each of the Parties.

SIGNATURE PAGES FOLLOW

WE AGREE:

Representing and binding the Office of Regulatory Staff



Nanette S. Edwards

Office of Regulatory Staff

1441 Main Street, Suite 300

Columbia, SC 29201

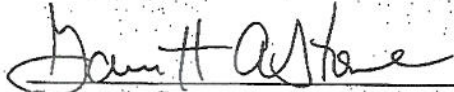
Phone: (803)737-0800

Fax: (803)737-0895

Email: nsedwar@regstaff.sc.gov

WE AGREE:

Representing and binding Nucor Steel -- South Carolina



Garrett A. Stone

Brickfield, Burchette, Ritts & Stone, P.C.

1025 Thomas Jefferson Street, NW

Eighth Floor -- West Tower

Washington, DC 20007

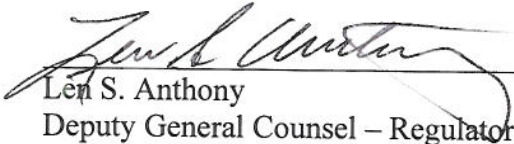
Phone: (202) 342-0800

Fax: (202) 342-0807

Email: gas@bbrslaw.com

WE AGREE:

Representing and binding Carolina Power & Light Company, d/b/a Progress Energy Carolinas, Inc.

A handwritten signature in dark ink, appearing to read "Len S. Anthony", is written over a horizontal line.

Len S. Anthony
Deputy General Counsel – Regulatory Affairs
P.O. Box 1551
Raleigh, NC 27602
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Fax: (919)546-2694
Email: len.s.anthony@pgnmail.com

EXHIBIT A

	Rate Class	Environmental Component Billing Factor (cents/kWh)	Environmental Component Billing Factor (cents/kW)
1	Residential	0.031¢	
2	General Service (non-demand)	0.030¢	
3	General Service (demand)		8¢
4	Lighting	0.00000	

**PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2007-1-E
SUPPLEMENTAL DIRECT TESTIMONY OF
PROGRESS ENERGY CAROLINAS, INC.**

WITNESS BRUCE P. BARKLEY

1 **Q. Please state your name, address, and position.**

2 A. My name is Bruce P. Barkley and my business address is 410 S. Wilmington Street,
3 Raleigh, North Carolina. My position is Manager–Fuel Forecasting and Regulatory
4 Support for Progress Energy Carolinas, Inc. (“PEC”).

5 **Q. Have you previously submitted pre-filed testimony in this proceeding?**

6 A. Yes. On May 2, 2007, I caused to be pre-filed 13 pages of direct testimony and
7 seven exhibits.

8 **Q. What was the purpose of your previous testimony in this proceeding?**

9 A. The purpose of my previous testimony was to review PEC’s fuel costs for the
10 historical period, April 2006 through March 2007, support the reasonableness of
11 these costs, present projected fuel costs for the period April 2007 through June
12 2008 and recommend a fuel factor to be effective July 1, 2007.

13 **Q. What fuel factor did you recommend the Commission adopt for PEC to be
14 effective July 1, 2007?**

15 A. I recommended the Commission adopt a fuel factor of 2.675 cents per kilowatt-
16 hour for the 12-month period July 2007 through June 2008. This factor consisted
17 of a component for recovery of projected fuel expense for this period of 2.368 cents
18 per kilowatt-hour and a component to collect the projected under-recovery as of
19 June 30, 2007 of .307 cents per kilowatt-hour.

1 **Q. What is the purpose of your supplemental direct testimony?**

2 A. The purpose of my supplemental direct testimony is to support and sponsor the
3 Settlement Agreement entered into by and between PEC, the South Carolina Office
4 of Regulatory Staff and Nucor Steel-South Carolina, which resolves all issues
5 involved in this proceeding.

6 **Q. Please describe the Settlement Agreement?**

7 A. Basically, the Settlement Agreement accepts PEC's projected fuel costs for the
8 period July 1, 2007 through June 30, 2008 as reflected in Exhibit No. 6 of my May
9 2, 2007 pre-filed testimony as reasonable, and finds that PEC is entitled to recover
10 its under-recovery as of June 30, 2007 in the amount of \$21,057,477 as adjusted to
11 reflect the recommendations of ORS Witness Jackie Cherry in her pre-filed direct
12 testimony being filed this same date.

13 It also establishes the fuel and environmental cost component of PEC's fuel factor.
14 Finally, it establishes the methodology for calculating the environmental cost
15 component.

16 In my testimony, which was filed prior to the effective date of Senate Bill 431
17 which amended the fuel statute, I recommended a fuel factor of 2.675 cents per
18 kilowatt-hour to recover PEC's forecasted fuel costs and under-recovery as of June
19 30, 2007. As I explained in my pre-filed direct testimony, beginning on page 12,
20 Senate Bill 431 allows PEC and other utilities to collect various environmental
21 costs in fuel cost proceedings. These environmental costs are to be recovered as
22 part of the fuel factor via a separate environmental cost component which is to be
23 calculated based upon the firm peak demand from the prior calendar year for a

1 utility's respective customer classes. Prior to the enactment of Senate Bill 431,
2 sulfur dioxide ("SO₂") emission allowance costs were classified as "fuel costs" and
3 were recovered through the standard fuel cost rider. Senate Bill 431 reclassifies
4 SO₂ emission allowance costs as "environmental costs" to be recovered through the
5 new environmental component of the overall fuel factor. As a result, the parties
6 have agreed to separate PEC's SO₂ emission allowance costs from its other fuel
7 costs and recover such costs through the environmental cost component established
8 by Senate Bill 431 which is to be allocated for cost recovery purposes among
9 customer classes based upon firm peak demand from the prior calendar year. This
10 change, in conjunction with the ORS's adjustments, results in the proposed fuel
11 rider decreasing from 2.675 cents per kilowatt-hour to 2.651 cents per kilowatt-
12 hour and the creation of an environmental cost component for each customer class
13 as set forth in Exhibit 8 to my supplemental direct testimony.

14 **Q. Is the Settlement Agreement in the public interest?**

15 A. Yes, the Settlement Agreement is in the public interest. The Agreement allows
16 PEC to recover its just, reasonable and prudent fuel cost in an equitable and fair
17 manner and properly implements the intent and spirit of Senate Bill 431.

18 **Q. Does this complete your testimony.**

19 A. Yes.

20
21 250903

DOCKET NO. 2007-1-E

BARKLEY EXHIBIT 8

	Rate Class	Environmental Component Billing Factor (cents/kWh)	Environmental Component Billing Factor (cents/kW)
1	Residential	0.031¢	
2	General Service (non-demand)	0.030¢	
3	General Service (demand)		8¢
4	Lighting	0.00000	

**STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION**

DOCKET NO. 2007-1-E

In the Matter of:

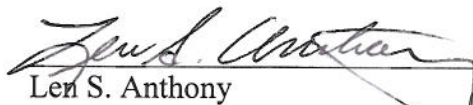
Carolina Power & Light Company, d/b/a)
Progress Energy Carolinas, Inc., - Annual)
Review of Base Rates for Fuel Costs)

CERTIFICATE OF SERVICE

I, Len S. Anthony, hereby certify that the Joint Motion For The Scheduling of a Settlement Hearing, Settlement Agreement and the Supplemental Direct Testimony of Progress Energy Carolinas, Inc.'s Witness Bruce P. Barkley, sponsored by Progress Energy Carolinas, Inc., Nucor Steel-Carolinas, and the Office of Regulatory Staff have been served on all parties of record electronically, by hand delivery or by depositing said copy in the United States mail, postage prepaid, addressed as follows this the 1st day of June, 2007:

Nanette Edwards, Esq.
Office of Regulatory Staff
P.O. Box 11263
Columbia, SC 29211

Garrett A. Stone
Michael K. Lavanga
Brickfield, Burchette, Ritts & Stone, P.C.
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